FEDERAL ASSISTANCE TO SMALL BUSINESS (Part 2)

HEARING

BEFORE THE

SUBCOMMITTEE ON EXPORT OPPORTUNITIES AND SPECIAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

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CONTENTS

	Page
Hearing held on September 22, 1982	1
Ireland, Hon. Andy, chairman, Subcommittee on Export Opportunities and Special Small Business Problems: Opening statement	1
Testimony of:	
Nalen, Craig A., President, Overseas Private Investment Corporation	1
Additional material submitted for the hearing record:	
Nalen, Craig A., President, Overseas Private Investment Corporation: Prepared statement with attachment	7

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(Part 2)

WEDNESDAY, SEPTEMBER 22, 1982

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EXPORT OPPORTUNITIES AND
SPECIAL SMALL BUSINESS PROBLEMS,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 3 p.m., in room 2359–A, Rayburn House Office Building, Hon. Andy Ireland (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN IRELAND

Mr. IRELAND. Let me just say a few words so that we have it for the record.

Last fall, the subcommittee decided to undertake an extensive survey to find out what our Federal agencies and departments are doing to aid small business. There are many Federal offices which have been set up to provide specific assistance to small business. In our past hearings we heard about a number of such programs. We intend to hold these hearings so we are able to compile an informative guide so small businesses know what programs exist that could be of assistance to them.

Today we will hear from Craig Nalen, president of the Overseas Private Investment Corporation.

Mr. Nalen, welcome, and thank you for coming.

TESTIMONY OF CRAIG A. NALEN, PRESIDENT, OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. NALEN. Thank you, Mr. Chairman, for asking us to be present here today.

I have a formal statement. I would like to have your permission to submit that for the record and there may be some other materials which we would like to submit for the record.

Mr. IRELAND. Without objection.

Mr. NALEN. Thank you.

We appreciate very much the opportunity to come here today to talk about small business. As a matter of fact, it is not generally the kind of question we are asked about. Most of the time inquiries that are directed to us concern the total volume of business at OPIC, and the answer to that happens to be we are doing very well, thank you. After about 8 very flat years with volume around the $1 billion mark for our insurance programs, we are pleased to

report that this year, which will end in another 10 days we will be close to $3 billion, which is double last year's record performance.

Or we are asked, what are we doing to capture our fair share of the world's fastest growing markets, the Third World, and our answer is we are doing everything we can, although it is not always an easy task since the American businessman is now just beginning to wake up to the opportunities in those countries. Our mandate, as you know, is to encourage private investment in Third World countries, and I must say very immodestly, I think we are achieving that mandate.

We are also asked, are we continuing to be self-sustaining and are we making money, and I can also tell you that although that is not your question today, yes, indeed we are. We are continuing to maintain our programs of insurance and finance to encourage investment in Third World countries without being a burden to the taxpayer. In fact, yesterday I am pleased to report, I guess it was Monday rather, we were invited to the White House to make a special presentation to President Reagan, which happened to be a check for $50 million that we were giving as a return to the American taxpayers. So finally, when we come here today to talk about small business, I am pleased to have this opportunity.

I am not going to go through the dreary routine of restating everything that is in my prepared statement which we have sent in, which is quite comprehensive, but I will tell you that maybe one of the reasons that it is easy for us to talk about small business and what we are doing to respond to the small businessman of America is that in many ways it is interesting to note that OPIC is itself probably more like a small business than any other part of the Government bureaucracy that any of us can think of. We are run like a small business and we are certainly more profit oriented. I can't think of many other agencies that can say that. We are entrepreneurial by nature. We operate rather autonomously. We only have 120 people in the whole agency who are doing billions of dollars' worth of political risk insurance underwriting. Most of us have come from small concerns.

So with that as a prelude, let me just review very quickly some of the programs which I think you might be interested in, and what we are doing for small business.

Our primary program, as you know, is political risk insurance, and we have a mandate from Congress which says 30 percent of the projects that we undertake must be directed toward small business. I am pleased to tell you that over the past 2 years we have been able to achieve that level.

Actually, it might be interesting to note that although 30 percent of the projects—I am not talking about the total dollar volume, but the projects that we have assisted—involved small business. We have come up with an interesting statistic which shows that almost 70 percent of our current clients that we have helped and aided are small businessmen. This striking statistic is due to the fact that many of our clients are the big Fortune 1000 companies who have many projects. So in terms of projects, 30 percent are significantly involving small businessmen, but of our clients, 70 percent are small businessmen.

Our financial program, which is probably not as well known as our insurance program, has two parts to it. One is loan guaranties and the other, which I think is more interesting to this body today, is our direct investment fund, our DIF program. This, again by congressional mandate, is aimed exclusively at the small businessman. They are funds that we make available as loans to encourage small businessmen to invest overseas in Third World countries.

We are right now limited to a $10 million ceiling and it goes without saying that there is no problem in using up that $10 million with worthy small business clients, and this year was no exception. We loaned up to the limit.

So much for our basic programs. In my prepared statement, we also break down what we are doing for U.S. small business with respect to investment encouragements. Under investment encouragement, we have a number of special programs. One is the reimbursement of various fees. As you might have noted in our submission, payment of legal and accounting fees and other charges can often be a burden to the small businessman. We will reimburse a small businessman for some of those fees, whereas we would not do that for large businesses. We conduct financial reconnaissance and feasibility studies. Our feasibility program, I must say, is a very effective one and one that is very important to any businessman, but particularly a small businessman. So it is no surprise that 90 percent of the feasibility studies which we finance go directly to the small businessman.

I think you can understand how difficult it is for a small businessman to make a decision to relocate. Quite often it is tough for an individual who has a business in Connecticut to think of relocating or putting a branch up in Peoria. It is infinitely more difficult when he thinks of an overseas location. Therefore, we will provide funds to get him over there, to get a study underway to assess the market and gather the facts that will help him make a decision as to whether or not he wants to move forward.

We have another program which is extraordinarily interesting and very effective. It is called our investment mission program where we take OPIC sponsors and groups of leading businessmen directly to Third World countries where they will interface with and have an opportunity to meet heads and ministers of governments and also to meet directly with representatives from the private sector of those countries. There is no substitute for being able to ask questions and hear answers in order to whet the appetite of a potential investor.

We have undertaken numerous investment missions over the agency's history. I am pleased to tell you that over the past years since any of us have been associated with OPIC these missions have increased in their effectiveness. Prior to this period, we are sad to say many of these investments missions were nothing more than perhaps a tourist group. We are being much more selective in who goes on these missions and we are finding upwards of 60 percent of the mission participants go forward with investments in the Third World countries they visit. I think our statistics show that of the individuals that go on these investment missions, well over half are representatives of small businesses. So small businessmen are direct beneficiaries of our investment mission program.

Because of the expense of investment missions, we do ask the participants to pay their own way. It is also an investment of time. It is time consuming not only for them, but for us to put the missions together.

We have experimented with a technique called telemissions where we have utilized satellite technology to beam a two-way audiovisual communications setup between a Third World country and potential investors here in the United States. The most recent one, the first and only one up to this point, linked Cairo with six cities in the United States. President Mubarak was a participant in this as well as President Reagan. We had it moderated by Walter Cronkite and we went into cities such as two on the west coast—Los Angeles and San Francisco—New York, Minneapolis, Boston, and so forth, and we were able to reach over 800 businessmen instead of a handful.

At the telemission, we had a 2-hour session whereby businessmen and Government people in Cairo were able to explain business opportunities and then answer questions from the 800 businessmen in the audience. Again, although we don't have specific statistics, it is estimated that well over 80 percent of the representatives in those audiences were small businessmen, and that is exactly why we had that particular program. We have other programs in terms of grants and loans to PVO's, training grants and so forth, almost all of which are aimed directly at small businessmen. Training grants enable a small businessman to help train a work force in an enterprise which we will provide funds for. This has been a particularly effective program of ours. So much for some of the basic programs of insurance, finance, and investment and encouragement.

One of our biggest challenges when we came on board OPIC at the beginning of this administration was to resolve a dilemma that a small businessman or any other businessman would have come to the same conclusion about, there are really two elements necessary to run a successful business enterprise. At the risk of oversimplification, one is that you have to have a good product, and the other is you have to have a consuming audience who knows about your product. We were certain that what we had to sell, if you will, were products, political risk insurance, and financial services, that were needed and were of good quality. We did a little research to confirm that and to confirm our other suspicions.

We often joke about OPIC being Washington's best kept secret. It is also, I think, America's best kept secret. I hope that we can use a different tense. It used to be Washington's best kept secret. The research we did confirmed that the businessmen that knew about OPIC had a high regard for it. They knew what its political risk insurance was, and they knew OPIC provided that. These people were mostly in the Fortune 1000. When we got below the Fortune 1000, the smaller and intermediary size businesses had a level of awareness of OPIC of under 10 percent. We knew what the problem was. We had to get the word out, had to get a higher level of awareness, and we did a number of things to achieve that.

One was an advertising and public relations program. This is a reprint which we will put in for the record, which appeared in a number of magazines, ranging from Fortune down to Inc., and is aimed directly at the small businessman.

We are talking about Third World countries that are closest to the United States in this series of ads. In this case, we are talking about the Caribbean, and we are of course responding to the President's initiative to try to get more attention focused by the private sector on the Caribbean Basin for so many excellent reasons. The company we talk about in this particular ad happens to be World's Finest Chocolate, Inc., which obviously is a small company, and how it found an opportunity in St. Lucia. It is an intriguing ad. Although it is too early to tell, the response has been heartening and we have had a number of inquiries. I would guess before this campaign is over, we will have many thousands of inquiries that will lead to specific and tangible investments in some of those Third World countries. Also listed at the bottom is a toll-free number, as well as our address.

We also have a direct mail campaign which is exactly what it says. We get lists of small businessmen from various organizations and aim direct mail promotional material at them, telling them about investment missions and about investment opportunities in Third World countries around the world.

We have also an inability to add personnel due to budget restraints. Therefore, we have an EMC program, our Executive Marketing Council. This is, I think, a rather creative way we have found to utilize resources in the private sector to help us. We have enlisted about 20 recently retired executives, former presidents and heads of international divisions of U.S. companies, who, although retired, still have plenty of life in them, plenty of energy and a real interest in developing international business. They simply become our ambassadors, or our missionaries, if you will. They go back to their local areas, and conduct seminars in conjunction with financial institutions.

We have also brought them to Washington and given them a course on OPIC, on investment overseas, and how the small businessman can participate. We give them audiovisual materials, cassettes and whatever. They become very effective, as I say, missionaries and spreaders over the world about OPIC.

Needless to say, we do everything we can with our small staff, to be represented at just about every conference or convention or meeting of small businessmen, ranging from my personal appearances to those of our executive vice president, Ed Gaines. He, as a matter of fact, either the end of this week or early next week, is going to participate in programs with representatives from the Young President's Organization at the White House, and we will not miss that opportunity to tell them about what kind of programs we have that are directly designed to help them.

We also have been using computer technology, with what we call our investment bank, which very simply is a computer network set up in our headquarters here where we feed into it two basic pieces of information. One is from Third World countries, consisting of projects and investment opportunities, and the other is specific names of companies and businessmen who want to tie up with certain countries and want to find opportunities to invest. This sort of matchmaking procedure which, although we just set it up, is becoming quite effective, and we have high hopes of this becoming one of Washington's foremost centers, bringing together willing in-

vestors in the United States with investment opportunities in Third World countries.

Finally, I would like to talk, in conclusion, about a special project which I have touched upon a little bit, which I think represents a confluence, if you will, of the many efforts that we are undertaking with respect to helping the small businessman. It is our Caribbean investment opportunity program, and we are doing it not only by ourselves, but with our sister agency, AID, through its Private Enterprise Bureau. We are pooling some of our funds and we are launching and sustaining a program which, as it says, is aimed directly at the Caribbean. I don't think I have to relate the causes of our interest in supporting the President's initiative in the Caribbean Basin. Surely everyone of us as citizens, every one of us as businessmen, and certainly Congressman Ireland, you as a Representative from Florida, have a special interest in seeing stability maintained in this critical part of the world. So we have responded in a number of ways.

We began last year by leading several investment missions to Haiti, and to Jamaica. Most recently, I accompanied the President on his trip to Kingston, Jamaica, and Barbados, and in each case the idea was to generate a higher degree of awareness of the investment opportunities in the Caribbean and to bring more businessmen there to seize these opportunities. Our record is good.

In order to keep the momentum going there, we have undertaken this overall Caribbean investment program, which is being supported by special advertising appearing in a number of publications, most of them being aimed primarily at the small businessman, and we are going to supplement that.

I might add that these ads call attention to investment opportunities in this vital area. There is a little tear-out and it gives the reader an opportunity to send away for what we call a starter kit, which essentially is material covering in great detail, but in an easy to understand way, background on 10 Caribbean nations and "how easy it is to get started doing business in the Caribbean." We are not passing this out free. They are $25. The price was carefully arranged because we wanted to discourage the casual person who wants to get some free literature. This qualifies the potential investors as having considerable interest before they send checks for $25. Although these ads just began appearing—and we also have direct mail to support this—we have already sold upward of close to 100 of these kits. We didn't print too many because we didn't know what the response would be. We think it is a good start and a very encouraging indication that there is interest among small businessmen around the United States who might well make the plunge and invest in this very critical part of the world.

I think the ad also mentions that on October 28 we are going to have a second telemission. This one is going to hook up representatives from these 10 Caribbean nations. All of these will be high Government officials and members from the private sector from these needy countries who will convene in Miami. The Miami viewing will be sponsored by a local bank, Total Bank. It is not one of the big banks in Florida, but it is a bank founded by Cuban-Americans who are highly entreprenurial, and very outstanding professionals. They are energetic individuals who are working closely

with us on this Caribbean program. It will originate from Miami and also from Washington, where there will be a number of Government officials. It will be beamed out to five or six cities around the United States. Again almost all of the audience will be small businessmen.

We will at that time announce three more missions that will be followup missions to the Caribbean. One will be going to Jamaica next January. The other will be going back to Haiti in the first week of December. The third will be in late November to the eastern Caribbean, which was promised when we were there with President Reagan. One of the things we said then was that we were going to arrange an investment mission for that part of the Caribbean, and we will indeed do it.

So I hope you have gotten the picture that OPIC is tilted in the direction of small business. In fact, even though we have a mandate to do so, we really don't need it. There is sort of a spirit which it is hard to put your finger on and maybe I touched on it before when I said that we are ourselves more small business than anything else. We have a natural orientation toward the small businessman and I think we have discovered that it is the small businessman that very often is best positioned to fit in well with the smaller economies of the developing nations of the Third World.

These small businessmen somehow seem to be able to adjust much better to smaller economies. They can make decisions faster, they are more entrepreneurial in nature. When they make an investment in an overseas market, they are less likely to turn their backs on it, but rather they roll up their sleeves and make sure they get a return on the investment. It is because of that that they really have turned out to be the best ambassadors of our country, proving once again that our American small businessman, working within the free enterprise system, can effectively deliver the transfer of technology, and management skills, can create new jobs, new products, and new exports both here and in the Third World countries, and perhaps most important of all, for these hundreds of millions of people in the Third World countries around the world, they can help provide the hope for a better quality of life.

Thank you, Mr. Congressman.

[Mr. Nalen's prepared statement and supplementary material follow:]

PREPARED STATEMENT OF CRAIG A. NALEN, PRESIDENT, OVERSEAS PRIVATE INVESTMENT CORPORATION

I. INTRODUCTION

Mr. Chairman and Members of the Subcommittee: We are pleased to be here today and would like to thank Chairman Ireland and the members of the Subcommittee for giving us the opportunity to address the role of the Overseas Private Investment Corporation in assisting small business concerns to take advantage of investment opportunities abroad. We shall address three main areas: OPIC's products, OPIC's investment encouragement programs, and OPIC's new marketing program.

As you know, OPIC's statutory mandate is "to mobilize and facilitate the participation of United States private capital in the economic and social development of less developed friendly countries." OPIC's programs thus complement both international government-to-government assistance efforts and the national development activities of the investment promotion and finance institutions of the developing nations.

OPIC is a self-sustaining U.S. Government Corporation established under the Foreign Assistance Act of 1961. OPIC issues political risk insurance for U.S. private investments in almost 100 developing countries and helps to finance the investigation and development of private investments.

The urgent developmental needs of the third world nations cannot be met through concessional aid alone. The infusion of private capital has proven to be a much more effective and lasting means for transferring technology, creating jobs and providing the hope for a better quality of life for millions of people throughout the world.

The third world also represents economic opportunities for American businesses. Third world countries represent the fastest growing markets in the world and today account for almost 40 percent of total U.S. exports. The continued growth of the U.S. economy will depend to a large extent on how effectively we compete for these markets in the future. Thus, the process of investing U.S. private capital in third world countries is very definitely a two-way street, with benefits accruing to both the United States and the host country.

In response to the interests of both Congress and the Administration, we have sought to increase OPIC's assistance to American businesses investing in these third world countries. Fiscal year 1981 saw a substantial increase. The volume of political risk insurance issued by OPIC in 1981 reached the highest level in OPIC's history—nearly $1.5 billion. Insurance, loan and loan guaranty commitments were issued for 113 projects—the largest number of commitments in any single year to that date. Net income for the year reached an all-time record of $76.2 million.

Although fiscal year 1982 is not quite over, it appears that OPIC will better even last year's record performance. The volume of political risk insurance issued will be almost $3 billion—about double last year's record amount. OPIC will have assisted about 135 projects—another record. And OPIC's net income is projected to be almost $82 million—still another record, which will enable OPIC to continue as a self-sustaining agency operating at no cost to the U.S. taxpayer.

Small businesses are vital to the success of the involvement of private enterprise in developing countries.[1] Small businesses are often better able to work in smaller economies, where the levels of commercial experience are modest, than are larger companies. Moreover, small businesses need the markets of the developing countries to expand their own sales and investments.

Smaller businesses face special problems, however, investing in developing countries. These problems are related to their relative lack of information and experience in identifying and setting up overseas investments, as well as to a general reluctance on the part of commercial lenders to provide capital in the amounts or on the terms required. So OPIC has a crucial role to play assisting these small businesses to undertake projects that are important to their commercial expansion overseas and that constitute a special source of benefits to developing countries, as well as new customers for American exports. At the same time, OPIC can achieve its developmental goals only if the small business projects it supports are commercially sound. This means that OPIC's programs must be designed to seek out the serious investor with sound proposals.

Small businesses already play an important part in OPIC's activities. Among OPIC's active insurance clients, the number of small businesses has risen to almost 70 percent of the total number of insured investors. Among OPIC's finance clients, small businesses have been involved in 64 percent of the total number of projects OPIC has supported. Because of the importance of small business to the fulfillment of OPIC's mandate, however, we at OPIC want to expand OPIC's assistafce to small businesses even more. OPIC, therefore, has intensified its efforts to introduce small business firms tg the opportunities for investment in the developing world.

In order to provide this assistance, OPIC's efforts to market its services to the small business sector must be intensified, and OPIC's services must be tailored to serve the special needs of small businesses. The following sections explain the programs we at OPIC have targeted toward small businesses and something about the results achieved to date.

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[1] Congress has defined "Small Business" for the purposes of OPIC's statute to include any business the annual sales volume of which is less than the annual sales volume of the lowest of the "Fortune 1000" industrial companies or its functional equivalent for non-industrial companies.

II. OPIC'S PRODUCTS

A. Political risk insurance programs

OPIC's political risk insurance has been attractive to small business. OPIC's political risk insurance provides broad coverage designed to protect U.S. investors from currency inconvertibility, expropriation, and war, revolution or insurrection. Although no company welcomes the prospect of a loss in its overseas operations, a small company is less able to survive a complete or even a sustained partial loss. This means not only that particular care must be taken in the initial investment decision, but also that a small company has a particularly great need for the type of political risk insurance OPIC offers. For this reason, OPIC's insurance registration fee for small business is lower than the standard fee.

OPIC's political risk coverage for "on-demand" letters of credit is an especially important service for smaller businesses. Contractors, and particularly subcontractors, are often small businesses, and need this protection against the risk of an arbitrary drawing of letters of credit posted as bid, advance payment or performance guaranties. Before the availability of this insurance, U.S. contractors had to include a significant dollar amount in their proposals for self-insurance. Since the establishment of this program by OPIC, American contractors have been able to become more competitive in their pricing. If American companies are successful in bidding on contracts, more opportunities are created for U.S. exports.

For fiscal years 1981 and 1982, OPIC has expanded this program to include more types of contractors and has assumed administration of a program (formerly administered by the Export-Import Bank) to cover underlying contracts as well as letters of credit. This too is of special advantage to smaller businesses.

As another means of making its insurance programs more accessible to small business, OPIC is looking next fiscal year at a simplified insurance contract form. A simplified contract will help to insure that the small investor understands contractual terms and may reduce the necessity for it to consult outside experts before purchasing OPIC insurance.

OPIC's statistics show that as of July 31, 1982, 29 percent of OPIC's fiscal year 1982 insurance projects, as distinguished from clients, substantially involved small businesses and cooperatives. The aggregate insurance coverage for these investors approximates $100 million. Eight of the projects are to be sited in Latin America, nine in the Near East/South Asia, one in East Asia and two in Africa. These projects involve educational services, agribusiness, equipment supply, processing and manufacturing, oil exploration, equipment leasing and technical assistance.

When the statistics for the number of clients, rather than the number of projects, are examined, the participation of small business is shown to be even greater. Since larger companies tend to conduct multiple projects, looking at the number of projects rather than the number of clients fails to show just how significant our involvement with small business actually is. Of the 655 insureds comprising OPIC's total insurance program, 450 or 68.7 percent are small businesses or cooperatives. By July 31, 1982, OPIC had received 194 insurance registrations by small businesses or cooperatives for the 1982 fiscal year, or 42 percent of the total number of registrations received. In all of fiscal year 1981, only 38 percent of the registrations were by small business. Thus, the potential participation of small business in the OPIC insurance program is on the rise.

B. Financing

By statute, OPIC's Direct Investment Fund (DIF) Loan Program is reserved exclusively for small business. Up through July 31, 1982, OPIC had made finance commitments of $11.3 million to ten smaller businesses for projects in Egypt, Pakistan, Panama, Costa Rica, Liberia, Haiti, Honduras (2), and Jamaica (2). From fiscal year 1977 through 1982, OPIC has committed funds for 73 Finance Projects. Of these projects 47, or 64 percent, were for small businesses.

The primary purpose of the DIF loan program is to encourage and finance U.S. small business investment projects that contribute to the economic development of less developed countries. Such projects can promote development in a variety of ways. Most notably, they can foster expansion of the host country's small-scale industries, as well as provide appropriate technology and managerial expertise to local entrepreneurs.

In fiscal year 1981, OPIC committed $10 million in loans to help finance the establishment of 14 projects sponsored by or significantly involving U.S. small business. These loans mobilized an additional $12 million of local investment capital which may otherwise have laid dormant or been invested abroad, thus not contributing to the countries' economic development.

One result of retaining the DIF authority for smaller businesses is that innovative projects that might normally be shut out of the international credit markets can be financed. The medium- to long-term structure of these DIF loans can allow investors to take on more easily available short-term commercial credit, increasing overall capital flows. It also allows for the extension of pay-back periods over a longer period of time, permitting projects to be more developmental to the host countries.

One example of an investment made through DIF financing is a poultry breeding and broiler farm operated in the Dominican Republic. A small producer and exporter of animal feed, veterinary products and related technical services, headquartered in southern Florida, was able to expand its operations in the Caribbean through the help of the OPIC Direct Investment Fund. At present, each dollar loaned by OPIC to this company is creating annually $3 of additional export sales from the United States, and $5 of added domestic value in the Dominican Republic. Likewise, each $4,000 of financing invested into this project has created at least one additional job within the Dominican Republic. In short, the project has generated enough profits to amortize its loan as well as provide resources for future expansion.

One feature of OPIC's finance program that has proven to be particularly useful to the smaller investor is a program to reduce the costs of doing business in developing countries by providing partial reimbursement for legal, accounting and other kinds of services. For any company, but particularly for small business, there are risks and uncertainties as well as relatively high costs in operating in a developing country as compared to doing business in a more familiar business environment. These costs arise as a result of unfamiliar legal and financial systems and often extremely time-consuming processes to accomplish project organization or construction, including the obtaining of necessary licenses, permits and approvals.

These factors can and often do result in substantial unanticipated costs to be met "up front" and create a financial burden to the smaller concern, even to the extent of impairing its startup working capital. Since 1978, when the program was initiated, OPIC has expended well over $200,000 to offset some of these unusual expenditures a small business encounters in starting up or expanding an operation overseas. Almost 40 small investors have been assisted in the process, the majority of whom have actually proceeded with their investments.

III. INVESTMENT ENCOURAGEMENT ASSISTANCE

In addition to its Direct Investment Funds, OPIC also provides financial assistance in the form of loans and grants to encourage private investment. Through financial and advisory support, it seeks to promote the development of human resources, skills and technology.

1. *Reconnaissance and Feasibility Study Funding.*—As we stated earlier, one of the biggest obstacles to small business investment in developing countries has been the lack of information about the host country business climate and the market for a particular product or service. OPIC assists small business in this regard by sharing the costs of reconnaissance and feasibility studies done in the host country. Thus far, during fiscal year 1982, OPIC has committed to fund 23 reconnaissance and feasibility studies, 20 of which were for small businesses. OPIC is considering contribution to 3 more studies before the close of the fiscal year, all of which would be for small businesses.

Most small businesses are extremely reluctant to utilize their own funds for a reconnaissance trip overseas in what they view as a highly speculative venture—travel to the developing country to meet local sponsors and to assess an opportunity. OPIC is prepared to contribute toward the costs of reconnaissance studies by small businesses. (OPIC staff evaluates these opportunities for which U.S. investors are being actively sought and where, in OPIC's opinion, a contribution toward costs is necessary to enable a potential small business or cooperative to examine the project opportunity in more detail.) OPIC will fund 100 percent of the cost of first-time travel to the host country and per diem allowances up to a total of $5,000 for personnel of the U.S. sponsor for on-site assessment of the opportunity.

OPIC is also prepared to contribute toward the cost of feasibility studies (studies conducted in greater depth and detail than the reconnaissance studies). These feasibility studies are often the second step in the investment process, and the results will usually be the decisive factor in whether or not an investor will go forward with its project proposal. At this stage of the evaluation process, a potential investor may hire consultants to help analyze a project's potential and can be partially reimbursed by OPIC for its own and the consultants' salaries. OPIC will pay 50 percent of the costs, up to a maximum of $50,000 for air travel, salaries, per diem allowances, and incidentals for travel to the host country and the conduct of the study.

OPIC has found the reconnaissance and feasibility studies to be an excellent method of assuring that the investments made by U.S. companies will be economically sound and successful. Nothing can substitute for the opportunity to talk to the host government officials who will be responsible for approving the project and whose support will be crucial to its success. Nor is there any substitute for actually meeting with potential purchasers of the products and potential joint venturers. Without this firsthand opportunity to survey the commercial landscape before shouldering the full burden, many small businesses could not invest in developing countries.

Almost all of OPIC's authority for funding such studies goes to small businesses. Small businesses are required to repay these costs only if a project goes forward. Large businesses, by contrast, must repay such costs in any event (and can receive assistance only in very limited situations).

2. *Investment Opportunities Missions.*—Investment missions began in 1975 when the first group of U.S. executives visited the Middle East and North Africa. Since that time, OPIC has conducted 17 missions which hundreds of U.S. business executives have utilized to examine investment possibilities in 35 countries thoughout the world. Small business executives have taken advantage of this opportunity to view firsthand the project opportunities available in developing countries.

OPIC made a special effort to involve small businesses last year in investment missions. In fiscal year 1982, OPIC conducted four missions to four countries. Of the 60 companies participating in these missions, 43 were small businesses. (Of the 60 companies participating in the missions, 78 percent currently plan to make investments in the country they visited.)

The investment opportunity missions are especially useful for small companies because they provide the type of host country contacts that bigger companies can obtain on their own. The small company has the opportunity to meet the country's officials and personally discuss the project it is proposing. OPIC's goal is to attract as many small businesses as possible for participation in its mission program.

For fiscal year 1983, OPIC plans to double the number of missions and the number of participants. Scheduled missions for 1983 are for Jamaica, Haiti, the Eastern Caribbean, Pakistan, India, Indonesia, Uruguay and Egypt. OPIC's investment mission program will be coordinated with OPIC's other programs in order to assure that as many small businesses as possible are made aware of the mission program and its opportunities.

3. *Telemissions.*—OPIC has pioneered the uses of the latest technology available to bring potential investors and host country officials together by a live two-way satellite broadcast. It is, in effect, an investment mission conducted by television. The U.S. participants not only get to see and hear from the host country business executives and officials, but they are able to ask questions as well.

The purpose of this innovative program was to increase the participation in missions, especially among small businesses. Although an investment mission is the ideal way for a business executive to fully explore a project opportunity, a week long trip is often not feasible for a small business executive with almost total responsibility for his company. In these cases, a telemission can provide an alternative. The telemissions are also structured to provide a pre-mission orientation to a country's business climate and investment needs.

The first OPIC-sponsored telemission took place on April 15 of this year and linked Cairo, Egypt with six U.S. cities, with Walter Cronkite as moderator. Of almost 800 participants, it is estimated that 75 percent were small businesses.

4. *Grants and Investment Encouragement Loans.*—OPIC also contributes to the success of some U.S. small business investment projects through the provision of funds on a grant or concessional loan basis. These funds may be used to conduct training programs for host country employees. For example, OPIC has recently begun to utilize this authority to assist in the process of U.S. technology transfer. OPIC is assisting the Fund for Multinational Management Education which has recently initiated a program in the ASEAN area to train local entrepreneurs to identify, acquire and manage modern American technology. This series of courses was requested by the local business communities involved, which were seeking alternatives to Japanese products. This program is designed to acquaint Southeast Asian business executives with U.S. sources of technology, particularly that which is originated by smaller and medium-sized businesses.

OPIC has also found that some U.S. private voluntary organizations (PVO's) could serve as intermediaries in identifying and providing assistance to U.S. small businesses. Since 1978, OPIC has provided investment encouragement assistance to selected programs for small private enterprise development conducted by certain

PVO's with a demonstrated record of overseas involvement with small business or cooperatives. Much of OPIC's support to PVO's has been centered in the Caribbean.

One of these organizations, Witherspoon International Corporation, is a nonprofit organization which provides debt or equity financing and technical advice primarily for projects sponsored by or significantly involving U.S. small business enterprises. Prior to OPIC's funding, Witherspoon's predecessor, Witherspoon Development Corporation, was primarily engaged in assisting minority operated enterprises in the United States. OPIC's support enabled Witherspoon to expand its lending operations to the Caribbean. In fiscal years 1979–82, OPIC has disbursed or committed financing of $1.3 million to allow Witherspoon to continue its relending program to small business projects in the Caribbean.

IV. MARKETING

Instituting programs to assist the small business in overseas investment is not enough by itself. OPIC's goal is to make certain that the right people hear about them and know how to use them. Therefore, OPIC has been attempting to use innovative and effective means to get its message out to the public. The following paragraphs describe how our marketing strategy has evolved and what our plans are.

A. Advertising and public relations

The advertising program OPIC instituted has as its purpose the broadening of the general public awareness of OPIC and its programs. Because the small business community is extremely large, diversified and widely dispersed, it is only through a broad-based marketing effort that OPIC can reach the small investor it seeks to assist. The program was initiated in an effort to reach especially the small businesses, which can now examine OPIC and its programs through regional banks and other financial institutions.

OPIC's advertising program consists of educational films and print copy which explain what OPIC is and what it does. Films will be shown around the country by financial institutions and other intermediaries to extend OPIC's reach. Through advertising in both newspapers and magazines of general circulation as well as in specialized trade publications for industries of particular interest to developing countries, an intensified effort has been made to reach small business. (OPIC also increases public awareness of its programs through a series of newsletters and press releases.)

B. Toll-free telephone system

OPIC's advertising directs potential investors to yet another source of information—a toll-free telephone number at OPIC where trained personnel will answer questions, determine needs and mail out additional information. To increase the benefit of the small business toll-free telephone system, a procedure has been established for informing the Commerce Department of calls received. In this way, the Commerce Department's International Trade Administration specialists, on OPIC's behalf, as well as OPIC's own staff, can call on the small business executive to explore problems or questions a d discuss assistance available from other agencies as well as OPIC.

Of the 262 calls received during this past month through OPIC's toll-free telephone number, 240 or 91 percent are from small business. OPIC is following up on these increased small business contacts.

C. Direct mail

In addition to advertising, newsletters and press releases, OPIC is using direct mail to contact potential investors. OPIC is also using lists from trade associations and other sources to contact small business in various industries to inform them of our services.

D. Executive Marketing Council

The Executive Marketing Council (EMC) consists of a group of high level executives who have an entrepreneurial background and international expertise. The Council includes former senior executives of U.S. companies who have committed themselves to giving their time to further U.S. private-sector investment in the developing world. The members have been drawn from a broad cross-section of industry. Their sole purpose is to assist small businesses who are interested in investing in the developing countries and who need some advice and assistance. Among other activities, members of the group have chaired OPIC's investment missions, spoken at meetings involving small businesses about OPIC's programs and forwarded interested potential investors to OPIC's staff.

E. Small business conferences

For several years, under the export and investment seminar program sponsored by OPIC, the Export-Import Bank, the U.S. Departments of Commerce and Agriculture, and the Small Business Administration, officers of the five agencies provided information on available services and opportunities to over 12,000 small business executives in over 75 cities around the country.

In addition, OPIC has funded or organized numerous small business seminars devoted exclusively to overseas investment. For example, OPIC has given the American Association of Minority Business Enterprise Small Business Companies (AAMESBIC) a grant of $250,000 to enable it to sponsor, among other things, a well-regarded series of conferences in major American cities designed to introduce U.S. small minority business to some of the advantages of investing abroad.

OPIC has also participated in other conferences and seminars with U.S. small business and cooperative groups. These have included the Young Presidents' Organization and various agricultural cooperatives. This type of activity has substantially increased the coverage of OPIC in business publications and has resulted in an increase in requests by small businesses for further information on OPIC's services.

F. Insurance broker's program

OPIC has established a program under which OPIC will pay commissions to licensed insurance brokers and agents on OPIC insurance issued to small business investors. What this means to a small company is that it no longer has to deal with OPIC in Washington, but can obtain insurance through its own licensed insurance broker. It can be freed of the responsibility of registering or applying for, renewing or amending its political risk insurance coverage by commissioning a broker to do the paperwork for it. OPIC, rather than the small business, pays the broker's commission. OPIC currently plans to increase the commissions it pays to brokers in an effort to expand utilization of the program.

G. Investment opportunity bank

In OPIC's experience, it is quite frequently the small business that is most suited to investment in small projects in developing countries. The difficulty, however, is in matching up the right investor with the project. OPIC has determined that the key to promoting economically successful investments by smaller businesses in developing countries is to get to know both the investor and the host country better. OPIC hopes to encourage more investment by small businesses by instituting a program designed to find the businesses that have the desire to invest abroad and the necessary skills and services to offer and matching them up with the host country which has the need for those skills and services and the desire to make the business climate a favorable one.

OPIC is developing a computer data base that will help match up potential investors with suitable projects in developing countries. It is the small business investor that will stand to gain the most from the opportunity bank service because it is the small investor that is least likely to be able to obtain the information on its own. OPIC gathers the information on needed projects or services from host country government sources and from American embassies abroad. Once OPIC knows the specific needs and the skills required, it is in a position to advise an investor about such a project.

V. CARIBBEAN INVESTMENT OPPORTUNITIES PROGRAM

One example of the marketing efforts just described is a new Caribbean Investment Opportunities Program, undertaken jointly with the Private Enterprise Bureau of the Agency for International Development (AID/PRE). The Caribbean has been chosen because the Reagan administration has assigned to the Caribbean Basin a central role in its global development strategy, based on the region's economic and geopolitical importance to the United States and of the need to alleviate the region's widespread poverty.[2] The purpose of the special program is to encourage U.S. businesses, especially small businesses, to review investment opportunities in the Caribbean and to make those businesses aware of programs offered by OPIC and AID/PRE to assist them. The focus of the mission will be to best match Carib-

[2] OPIC has played, and will continue to play, a special role in the administration's Caribbean priorities. In fiscal year 1981, OPIC assisted 30 projects located in 11 Caribbean Basin countries, including 9 in the Dominican Republic, 6 in Haiti and 3 in Honduras. Seventeen of these were new projects and 13 were expansions of existing projects. These projects increased employment, expanded export capacity, developed local food and energy sources, and improved agricultural productivity.

bean investment opportunities with American business capabilities. To this end, the Telemission will focus upon agricultural production, food processing, and light-manufacture assembly in the region's free-trade zones.

OPIC is using its marketing programs and facilities to inform the public about this Caribbean Investment Opportunities Program. OPIC has launched this week an intensive promotional campaign. Ads are appearing in newspapers and business and trade publications across the nation to outline plans for both a Caribbean Telemission and three Caribbean investment missions, all within the next five months.

The Telemission, which will take place on October 28, 1982, will link eight U.S. cities (Chicago, Washington, D.C., Dallas, Miami, Boston, Minneapolis, New York and New Orleans) with officials and business leaders from a variety of Caribbean nations. The Telemission will originate in Miami with viewing and broadcast to sites accommodating 100 participants.

The ads appearing in the newspapers and trade journals this week explain the Caribbean investment opportunities program, the Telemission and how interested business executives can participate. The ads enable the executives to send away for more information contained in a "starter kit" or to call a special toll-free telephone number to ask questions and obtain more specific information. The starter kits contain a personal invitation to the Telemission, AID and OPIC Program Information Brochures, country-by-country analyses of 10 Caribbean nations, answers to frequently asked questions about investing in the Caribbean, a schedule and information on upcoming Caribbean Investment Missions, and a special form called "Questions on the Caribbean" which gives the business executives an opportunity to present specific questions at the Telemission. OPIC is also using the members of its Executive Marketing Council to spread the word about the program to the small business executives they encounter on a regular basis.

Those Telemission participants interested in pursuing Caribbean investment ventures will have a chance to visit various Caribbean nations through attendance in one of the three investment missions planned for late fall and early winter. The week-long missions will provide U.S. executives with access to Caribbean business leaders and government officials in the position to substantially assist in the process of establishing a private enterprise venture. These missions will visit the eastern Caribbean, November 12–20; Haiti, December 5–10; and Jamaica, January 23–29, 1983.

OPIC is making every effort to get small business participation in the Telemission and subsequent Caribbean Investiment Missions for several reasons. OPIC's goal is to further development in the Caribbean and it believes small business is particularly well suited for investment there. OPIC's direct lending program is reserved exclusively for small business, and OPIC's experience shows that the Caribbean is a favored site for the small business investment which has resulted from its direct investment fund. (The bulk of OPIC's direct loans have been invested in Caribbean projects, and the results have been promising.) This year well over half of all the reconnaissance and feasibility studies OPIC has sponsored have been conducted in the Caribbean. OPIC's insurance projects there have doubled in recent years. OPIC has found that the Caribbean is a good starting point for U.S. small businesses first venturing abroad—it is close to home, the business climate is welcoming and the local population can support the small-scale operations most first time investors find feasible.

VI. CONCLUSION

We at OPIC want to promote economic development in developing countries by encouraging and assisting U.S. private investment. In the past year, OPIC's encouragement and assistance increased substantially. We believe that small businesses are essential to the success of this policy, and we have put the latest technology and innovative marketing techniques to use to reach that audience, which perhaps stands to gain most from the use of OPIC's programs. We shall continue to try to reach the small business executive we've been seeking. With continued effort, we believe we can assist even more small businesses in overseas investment that is financially rewarding for them, developmentally beneficial to host governments and economically advantageous to the United States.

OPIC INTENSIFIES EFFORTS TO REACH U.S. SMALL BUSINESSES

WASHINGTON, D.C., Sept. 22, 1982.—In the past fiscal year, the Overseas Private Investment Corporation (OPIC) has successfully intensified its efforts to introduce

small businesses to investment opportunities in the developing world, according to Craig A. Nalen, president of the federal agency.

Nalen made his remarks today before the House Subcommittee on Export Opportunities and Special Small Business problems of the House Committee on Small Business.

Nalen appeared before the Subcommittee to address the role of OPIC in assisting small businesses to take advantage of investment opportunities abroad. The hearing was one of a series on federal assistance to small business, which will be used to compile a guide for the small businessman.

"Small businesses already play an important part in OPIC's activities," said Nalen. "Among OPIC's active insurance clients, the number of small businesses has risen to almost 70 percent of the total number of insured investors. Among OPIC's finance clients, small businesses have been involved in 64 percent of the total number of projects OPIC has supported." OPIC is the U.S. Government agency that provides finance services and political risk insurance to encourage U.S. private investment in more than 90 developing nations.

In describing the Agency's efforts to attract small business for investment in the developing nations, Nalen reported the following achievements:

As of July 31st, 29 percent of OPIC's fiscal year 1982 insurance projects substantially involved small businesses and cooperatives. The aggregate insurance coverage for these investors is approximately $100 million.

Of the 655 insureds comprising OPIC's total insurance program, 450 or 68.7 percent are small businesses or cooperatives.

OPIC's Direct Investment Fund (DIF) loan program is reserved exclusively for small business. Through July 31st, OPIC had made finance commitments of $11.3 million for ten smaller businesses for projects in eight developing countries.

OPIC has introduced a reduced insurance registration fee for small business and offers coverage for "on-demand" letters of credit that are needed by contractors and, particularly, subcontractors, which are often small businesses.

Since 1978, OPIC has expended well over $200,000 to offset some of the unusual expenditures a small business encounters in starting up or expanding an operation overseas, including legal and accounting services.

Thus far during fiscal 1982, OPIC has committed to fund 23 reconnaissance and feasibility studies, 20 of which were for small businesses.

In 1982, four investment missions, which provide small companies with host country contracts, took 60 firms to four developing countries. Forty-three of the participating businesses were small businesses.

The first OPIC telemission on April 15, 1982, linked Cairo, Egypt with six U.S. cities. Of almost 800 participants, an estimated 75 percent were small businessmen.

During the past month, 262 calls were received through OPIC's toll-free telephone number, with 240 or 91 percent coming from small businesses.

OPIC has established an Executive Marketing Council of retired businessmen to advise and assist small businesses interested in investing in the developing nations.

OPIC is developing a data bank that matches potential investors, particularly small businesses, with suitable projects in developing countries.

"We believe that small businesses are essential to the success of OPIC policy, and we have put the latest technology and innovative marketing techniques to use to reach that audience, which perhaps stands to gain most from the use of OPIC's programs," said Nalen.

Because of the importance of small business to OPIC, Nalen said the agency was hoping to further OPIC's assistance to small businesses through increased marketing efforts and by tailoring existing services to meet the special needs of small businesses.

"With continued effort, we believe we can assist even more small businesses in overseas investment that is financially rewarding for them, developmentally beneficial to host governments and economically advantageous to the United States."

Mr. IRELAND. Thank you, Mr. Nalen. I hope you realize that you have done us a great service filling out a record that gives us a base to work with. You probably are not aware what usually goes on here. Mr. Stenholm, and I spend most of our time threatening, pleading, and cajoling. I came close to throwing something at one of them. Most of the agencies that come up here spend all their time finding out ways that they can sit back and not address that entrepreneurial spirit you talk about. It certainly helps us not only

for the record, but gives us some place to point and say well, if they can do it at OPIC, you can do it.

One of the important things we have been doing over this past year in addition to our other problems of small business, is looking at so many small businesses pass up the opportunity to export, to participate, and to invest overseas. Agency after agency comes before us and says that they are trying to help the small businessman. In your successful experience in this area are there ways that you have noted that other agencies could help you advertise, within the Government itself? Could, for instance, Commerce be doing more to help you? Is there a liaison problem? What can we do to spur that on a little bit?

Mr. NALEN. Well, you know in some cases the least they can do to help us is to maybe what we can do to help them, and we have been heartened I might add, that in recent weeks we have been approached by several agencies in town, Commerce being one, who have—again this may sound self-serving and immodest, and it is——

Mr. IRELAND. You are forgiven, for the record.

Mr. NALEN. They have been impressed with, I think, the businesslike way we have approached our challenge, and I think we took some of our lead from the President who said that this American Government can be, indeed must be run in a more businesslike manner. We know what our marching orders are, and we know that in order to achieve that, because we are businessmen, we had to come up with a strategy and a business plan. I think we have done that and the Commerce Department, since they have a representative on our board of directors, an Under Secretary there—Mac Baldrige himself has seen some of our work firsthand—a number of their people came over to pick our brains, and find out if there were some things we were doing which might have some application.

The same thing over in AID. They have this Private Enterprise Bureau and we are continuously working with them trying to bring them more into some of our programs. Can we be doing more—don't mean to say there isn't something they can do for us, there sure is. We get addresses, lists of names, and other information from the Commerce Department and utilize their resources quite frequently. We are using a lot of their information for our data information banks.

We are, therefore, developing liaison with Commerce, very directly so, and with parts of AID. We have worked with some representatives of yours, people you put us in touch with, and I hope we are making some progress. If your question is are we doing enough, no one is ever doing enough, and we are going to continue to endeavor to bring the bonds closer between us and our sister agencies here in Washington.

Mr. IRELAND. What about the Eximbank? What is the relationship there?

Mr. NALEN. The relationship there, other than the fact that Bill Draper and Charlie Lord are good personal friends, is that its efforts are almost exclusively trade-oriented. In that respect, we don't overlap very much because we are investment oriented. But we have been on some missions together in sub-Saharan Africa with Secretaries Block and Baldrige. Bill Draper and I were there and we were able to talk to businessmen there about our programs.

There is no really close relationship between what they do and what we do.

Mr. IRELAND. One last thought. I am impressed and intrigued by the aggressive outreach program, which is pretty much absent elsewhere. The telemission operation, is it too soon to gauge what has come from the Egyptian mission? How do you measure your results from something like that, or do you intend to?

Mr. NALEN. Yes, we are constantly trying to measure results. Let me see if I can cover that briefly. We announced an investment mission that was going to go over to Egypt at the telemission. I want to tell you there are hard sells in this world, but trying to get a businessman to want to invest in Egypt and make a trip to Cairo, is not very easy. This telemission enabled us to screen out of the 800 or so people who were interested enough at least to come to the 2 hours of entertainment, if that is what they thought they were going to see, but also to get information and investment opportunities, we were able to get some 15 or 20 businessmen to commit to come on the actual trip to Cairo, which Bill Delphos, OPIC's vice president for operations, led on behalf of OPIC. All of the mission participants are moving ahead with their investment plans. So the telemission screened out those with only a causal interest. That is important.

On that mission, all of the mission participants were small businessmen. An agricultural cooperative, Co-op Land of Lakes, is going ahead with a dairy herd project. Another was a tomato growing operation. Many participants were agribusinesses investigating investment opportunities well suited to small business. I would have to say that was effective.

There is a second mission we are going to take to Egypt. This is remarkable. Not only could we get one mission, we have been able to arrange a second on which there will be some 18 to 20 representatives from construction firms. Half of them are small businesses, the rest of them are very large. Again, the telemission, heightened awareness of investment opportunities. The Egyptian telemission was terribly important to us politically, and I would have to say it also caused and created a great deal of publicity, some of which we will submit for the record. We have articles covering the Egyptian telemission and public relations campaign associated with it which I think made more businessmen aware that there are business opportunities, maybe not just in Egypt but around the world, and that there was an agency in Washington that stood by ready to help them.

Mr. IRELAND. That is good.

Well, we want to thank you again for what you have done. As you know, I am enthusiastic about what you have done. You have helped us with some ammunition that will, I think, help us highlight for the public what small business can do. We are indebted to you and we appreciate it, and we will put all that material, including the $24.95 in the record.

Mr. NALEN. Which you are getting for free.

Mr. IRELAND. Thank you, we appreciate that.

Mr. NALEN. Thank you.

[Whereupon, at 3:45 p.m. the subcommittee adjourned to reconvene subject to call of the Chair.]

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